

Report to / Rapport au:

**OTTAWA POLICE SERVICES BOARD
LA COMMISSION DE SERVICES POLICIERS D'OTTAWA**

27 July 2020 / 27 juillet 2020

Submitted by / Soumis par:

Chief of Police, Ottawa Police Service / Chef de police, Service de police d'Ottawa

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SUBJECT: FINANCIAL STATUS REPORT – SECOND QUARTER 2020

OBJET: RAPPORT D'ÉTAPE FINANCIER DU DEUXIEME TRIMESTRE 2020

REPORT RECOMMENDATIONS

That the Ottawa Police Services Board receive this report for information.

RECOMMANDATIONS DU RAPPORT

Que la Commission de services policiers d'Ottawa prenne connaissance du présent rapport à titre d'information.

BACKGROUND

The quarterly financial report summarizes the current financial position of the Ottawa Police Service (OPS), outlines the operational issues affecting the OPS' finances and presents the projected year-end financial position for the organization. This report presents an initial projection of the Service's year-end financial position and outlines the significant variances that are known at this time. The accuracy of this projection improves with each quarter, as the OPS' expense and revenue patterns become more certain.

DISCUSSION

The Covid19 pandemic has created unprecedented financial pressure on the OPS in 2020 and potentially beyond. The pandemic is still a very fluid situation with financial data points just starting to emerge now as operations are commencing to stabilize in the new current work

environment. The Board was engaged early and continues to be provided regular monthly financial updates through the Finance and Audit Committee on the impact of the pandemic. These significant financial pressures have been met with equally significant management interventions to ensure OPS remains fiscally responsible during the pandemic.

These management interventions include the following:

- No travel order
- Discretionary spending freeze
- Employee transfer and temporary assignment freeze
- Enhanced overtime reporting and controls to limit usage
- Annual leave utilization strategy

Based on current information, staff is forecasting total operating budget pressures for 2020, in the amount of \$13.7 million, which is currently being projected to be entirely offset by solutions of \$13.7 million leaving the OPS in a balanced budget position in 2020. OPS management continues to work extremely hard to find additional budget solutions to continue to deliver on the Board's strategic initiatives. As per the discussion with the Finance and Audit Committee on May 12 2020 management is fully committed to delivering a balanced budget by year end.

Each of the significant variances is summarized in Table 1 and discussed in more detail below. The year-end position for OPS operations is still very fluid due to the rapidly changing environment and the potential of a second wave of the virus.

Identified Pressures & Solutions

a) Total Revenue Pressures

The main driver of OPS's operational pressure is the result of a variety of revenue shortfalls. These revenue shortfalls are expected to total \$8.0 million in 2020.

The revenue deficit is comprised of the following revenue categories: user fees, which include paid duties, background checks and false alarm fees (\$5.6 million), grant revenue (\$1.0 million), red light camera revenue (\$0.7 million) and airport revenue (\$0.7 million).

b) COVID 19 Expenditure Pressures

OPS are also experiencing significant expenditure pressures due to the pandemic totalling \$4.9 million. This deficit includes \$2.3 million for the additional personal protective equipment and decontamination steps being taken to protect our members and the public.

Table 1 - Ottawa Police Service 2020 Projected Year End – Significant Variances	
Pressures	(\$000)
Total Revenue Pressures	(8,000)
COVID19 Expenditures	(4,900)
Non COVID19 Expenditures	(800)
Total Pressures	(13,700)
Solutions	
Discretionary	9,600
Non-Discretionary	4,100
Total Solutions	13,700
Projected Surplus (Deficit)	-

The remaining \$2.6 million is attributed to higher unused leave banks and increased overtime related specifically to the pandemic.

c) Non COVID 19 Expenditure Pressures

During the second quarter two operational pressures were identified that aren't related to the pandemic and are resulting in pressures of \$0.8 million. The first item is WSIB and OPS are forecasting a \$0.5 million shortfall by year end related to WSIB costs. The second item is the Chief's priorities around the Neighbourhood Resource Team's, sexual harassment in the workplace and standing up the Respect, Values and Inclusion Directorate. These priorities are requiring a \$0.3 million investment in 2020.

d) Discretionary Solutions

The pandemic required considerable management intervention in order to remain fiscally responsible. Those interventions are forecasted to result in \$9.6 million in discretionary solutions. The spending freeze is expected to save \$4.9 million in services, supplies and equipment related costs. The no travel order is expected to save another \$1.7 million with the variety of other management interventions resulting in the remaining \$3.0 million of solutions.

e) Non-Discretionary Solutions

Non-discretionary solutions total \$4.1 million in savings. The main expenditure savings that OPS's experiencing is related to non Covid19 overtime. There is a noticeable reduction in calls for service, a virtual Canada Day celebration, court and front desk closures all contributing to an anticipated \$2.6 million in overtime savings. The remaining \$1.5 million in savings is arising from a reduction in benefits due to benefit provider clinics being closed, lower than expected fuel prices and some facilities related savings.

Horizon Issues

The Covid19 pandemic remains a very fluid situation that will continue to be monitored from an operational and financial perspective, especially in regards to a potential second wave occurring. Indemnification costs are also a horizon issue that may pose a pressure in 2020 when court operations resume.

Quarterly Reporting Requirements

Section 2(e) of the Board’s Policy BC-2 on Monitoring Requirements requires the Chief to provide the Board with information on specific operational issues. With respect to financial reporting, these requirements include:

- Document 1 provides the 1st Quarter Financial Report – Summary by Directorate.
- Document 2 provides a list of all contracts awarded under delegated authority by the Chief that exceed \$25,000 in the period of April to June 2020. In total, \$2.1 million in purchase orders were issued under delegated authority in the Second Quarter. The breakdown of these purchase orders, by category, is shown in Table 2. Expenditure definitions are included in Document 2 for reference.

Table 2 Summary by Type Contracts Awarded Under Delegated Authority		
Type	Amount (\$)	Percentage (%)
Information & Technology	982,279	46%
Professional Services	714,818	33%
Fleet & Equipment	315,212	15%
Goods & Supplies	137,325	6%
Facilities & Construction	0	0%
Consulting Services	0	0%
Total	2,149,634	100%

- Document 3 provides a summary of the OPS capital budget works in progress and indicates those which will be closed, in accordance with Section 3.1.3.4 of

the Financial Accountability Procedures Manual. It enables the Chief Administrative Officer to close capital projects by returning any remaining balance to the originating sources and fund any deficits.

Annual Reporting Requirements

Policy CR-4 of the Ottawa Police Services Board Policy Manual, Asset Management, requires that, on a yearly basis, the Chief shall:

1. Provide a report to the Board listing the assets assigned to the OPS and their Net Book Value.
2. Report on one category of real assets on a rotational basis to include:
 - a. Value
 - b. Expected useful life
 - c. Annual maintenance cost
 - d. Replacement plan
 - e. Disposal options.

The first requirement of the policy is satisfied in Document 4, entitled “Summary of Assets Assigned to Ottawa Police Service”. It provides an overview of the assets assigned to the OPS and the associated net book value for the five year period 2015 to 2019. The assets are divided into five categories and have a total net book value of \$68.2 million at December 31, 2019. The largest category of asset is “Buildings and Improvements” which accounts for almost \$49.5 million of the total.

The total net book value of assets assigned to the OPS was generally at a level of \$70 million plus from 2014 to 2017, with asset spending peaking in 2015 at \$73.5 million. Spending has decreased \$1.5 million in the latest reporting year however.

The second requirement in this area is to report on one category of assets on a rotational basis. This year the category is Information Technology (IT) Equipment. Document 5 provides a summary of the value of IT Equipment assigned to OPS including: the net book value, average expected useful life for accounting purposes, annual maintenance costs and disposal options.

The net book value of these assets is \$1.8 million at December 31, 2019. The annual operating budget includes a provision of just over \$0.6 million to maintain these assets, including the costs of: telephone system maintenance contracts (which include an onsite vendor supplied telephone maintenance technician), enterprise storage hardware maintenance, wireless infrastructure maintenance and firewall and switch maintenance.

Risks around this asset category include the following:

- Unexpected costs for new services needed to implement business changes
- Unexpected maintenance cost increases
- Non-integration with other OPS service-wide initiatives which could lead to operational ineffectiveness or unnecessary spending
- Growth of cyber security requirements as new threats in this vector unfolds
- Exponential growth of storage requirements with the proliferation of video files and imaging
- Expansion of network bandwidths to cope with the emerging cyber threats and storage capacity demands
- Maintaining adequate business continuity measures

FINANCIAL IMPLICATIONS

As outlined in the report.

SUPPORTING DOCUMENTATION

Document 1: 2nd Quarter Financial Report – Summary by Directorate

Document 2: Purchase Orders Issued Under Delegated Authority

Document 3: Capital Budget Works in Progress

Document 4: Summary of Assets Assigned to Ottawa Police Service

Document 5: IT & Telecommunications Assets and Maintenance

CONCLUSION

The pandemic is projected to cause significant financial pressure of \$13.7 million for OPS in 2020. This does represent a slight improvement from the first quarter report, and coupled with the management interventions introduced to date, OPS are projected to mitigate the entire financial pressure that is forecasted through the \$13.7 million in solutions identified.

The risks and assumptions in our forecast are continuously being revisited for accuracy and validity. The loosening or tightening of management interventions will continue to evolve with the pandemic to ensure a balanced budget.

In October, staff will present the Service's Third Quarter financial position as at 30 September 2020.